

/46/ DISSEM PER OPA#2

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EAST ASIA BRIEF C FOR 10 JUNE.

FROM: DDI/O/CPAS.

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1. HONG KONG: DOWNTURN IN ECONOMY

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1. HONG KONG: DOWNTURN IN ECONOMY

//THE DECLINING HONG KONG DOLLAR HAS CONTINUED TO WEAKEN, DESPITE GOVERNMENT EFFORTS TO SHORE UP THE CURRENCY BY INCREASING INTEREST RATES SUBSTANTIALLY. THE CURRENCY IS NOW TRADING AT 7.5 PER US DOLLAR--A 15-PERCENT DEPRECIATION FROM ITS PEAK IN JANUARY. INVESTMENT CAPITAL IS BEING TAKEN OUT OF THE COLONY, AND LOCAL RESIDENTS ARE EXCHANGING THEIR HONG KONG DOLLAR SAVINGS FOR FOREIGN CURRENCY AND GOLD. MOREOVER, FEAR THAT THE HIKE IN INTEREST RATES WILL CHOKE OFF THE COLONY'S RECOVERY HAS PUT HONG KONG'S STOCK MARKET INTO A TAILSPIN.//

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Approved for Release
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//THE SEVERE DETERIORATION REFLECTS GROWING PUBLIC APPREHENSION ABOUT CHINA'S INTENTIONS TOWARD THE COLONY. A MUTUAL INTEREST IN HALTING THE SLIDE IS LIKELY TO ENCOURAGE BEIJING AND LONDON TO TRY TO BREAK THE DEADLOCK IN THEIR TALKS OVER HONG KONG'S FUTURE. IF THE DETERIORATION CONTINUES, BOTH SIDES PROBABLY WILL STEP UP THEIR ACTIONS TO STABILIZE THE ECONOMY.//

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